The Service Center Mainframe Consolidation Project Has Made Significant Progress, But Project Execution and Administration Risks Remain

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MEMORANDUM FOR COMMISSIONER ROSSOTTI

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Service Center Mainframe
Consolidation Project Has Made Significant Progress, But
Project Execution and Administration Risks Remain

This report presents the results of our review of the Internal Revenue Service's (IRS)
Service Center Mainframe Consolidation (SCMC) project. We conducted the review to
determine whether SCMC project management controls were adequate to ensure that:
lessons learned during the Kansas City Service Center consolidation were corrected
before additional cutovers occurred; any negative impact on taxpayer rights was
minimized during the consolidation; and that congressionally mandated budget reporting
was accurate. We also evaluated corrective actions taken as a result of our prior audit.

In summary, we found that the SCMC project is making significant progress. However,
there are several risks and controls that IRS management must continue to address.
We also found that IRS management needs to improve controls over contract
administration and budget accounting.

To strengthen the existing management control structure, we recommended
improvements in the areas of standardization of operations, testing, training, budget
accounting, and defining contract requirements and costs.

IRS management agreed with recommendations submitted as part of an interim
memorandum we issued during the review. As of the date of this report, IRS
management had not responded to the remaining issues within this report. IRS
management's comments have been incorporated into the report, where appropriate,

and the full text of their response to the interim memorandum is included as an appendix.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions, or your staff may call Scott E. Wilson, Associate Inspector General for Audit (Information Systems Programs), at (202) 622-8510.

Table of Contents

**The Service Center Mainframe Consolidation Project Has Made Significant
Progress, But Project Execution and Administration Risks Remain**

Executive Summary

The Internal Revenue Service (IRS) is in the process of consolidating the mainframe
computer operations used to process tax return data. The consolidation involves moving
mainframe processing, currently done at the IRS' 10 service centers, to new mainframe
computers located in 2 facilities referred to as computing centers—the Tennessee
Computing Center (TCC) and the Martinsburg Computing Center (MCC).

This is our second audit of the Service Center Mainframe Consolidation (SCMC) Project.
The first audit, *Readiness for Service Center Mainframe Consolidation* (Reference
Number 085812, dated September 21, 1998) reported that: (1) testing plans were not
adequate, (2) Project Office controls over critical tasks and communications to the field
needed improvement, (3) controls over technical aspects of contract administration
needed improvement, and (4) critical staffing shortages still existed at the computing
centers.

The overall objective of this review was to determine whether SCMC project
management controls were adequate to ensure that: (1) problems identified during the
Kansas City Service Center (KCSC) consolidation were corrected before additional
consolidations occurred, (2) consolidation minimized the impact on taxpayer rights, and
(3) budget postings and reports to the Congress on the costs of this initiative were
accurate. We also evaluated corrective actions taken as a result of the prior audit, and
immediately raised significant issues to the attention of IRS Management and Finance
(M&F) and Information Systems (IS) Division management.

Results

*While the SCMC Project is making significant progress, several risks remain. IRS
management also needs to ensure that the technical aspects of contract administration
are improved and that the cost of the project is accurately budgeted, captured, and
reported.*

**Critical Risks Related to Service Center Mainframe Consolidation Remain
Unresolved**

KCSC Mainframe Consolidation to the TCC

When the KCSC mainframe operations were consolidated to the TCC on
September 19, 1998, significant problems were encountered. For example, the
methods used to transfer data were not efficient, some programming changes were not
effective, and detailed standard operating procedures had not been developed for the
consolidated environment.

In a November 1998 memorandum, we reported the results of our assessment of the impact of mainframe consolidation on KCSC operations and taxpayers (see Appendix V). We also advised IRS IS management that several risks relating to testing, preparation for consolidation, and staffing were still present prior to the Brookhaven Service Center (BSC) consolidation.

BSC Mainframe Consolidation to the MCC

BSC mainframe computer operations were consolidated to the MCC on December 4, 1998, and the results were very encouraging for the SCMC Project. Several problem areas were improved by addressing lessons learned from the KCSC consolidation. As a result, the IRS was able to return to normal processing times at the BSC much faster than it did during the KCSC consolidation. Other reasons for the successful BSC consolidation included the continuous cooperation and communication between the MCC and the BSC, and the fact that the BSC provided on-site support to the MCC during the initial weeks of consolidation.

However, the IRS did experience some problems during the BSC consolidation. For example, some programs did not work, some telecommunication hardware failed, and automated scheduling was cumbersome.

There are still several issues that should be addressed before the remaining service center consolidations.

- *Management of Print Operations* – Standard operating procedures and training need improvement.

- *Workload Management* – Controls should be automated or improved for ensuring that complete and accurate input is received by the mainframes and complete and accurate output is produced by the mainframes.

- *Preparation for Consolidation* – Prior to consolidation, the service centers need to ensure their media storage method is compatible with the newer technology used in the computing centers.

- *Staffing Shortages* – Critical staffing shortages at the computing centers need to be addressed.

Controls Over Technical Aspects of Contract Administration Remain Inadequate

In the prior review, we recommended that IRS management provide additional resources to adequately define and validate SCMC contract requirements, and that the SCMC Project Office coordinate with the Procurement Division during price negotiations. IRS management agreed with the recommendations and established an August 1998

completion date for corrective actions. The IRS had not adequately corrected these conditions by October 1998. As a result, the IRS' negotiating position has diminished.

The Project Office was not verifying all invoices for the vendor's services and travel due to a lack of staffing. This could lead to the IRS paying for services not received or for unauthorized travel. In addition, inadequate contract administration has resulted in the contractor performing an estimated $7 million of work without following the proper procurement procedures.

Staffing Costs of Consolidation Are Not Accurately Budgeted, Captured, and Reported

Improvements are needed to ensure that the IRS accurately budgets, captures and reports all SCMC staffing costs to the Congress. Some service center employees who were working on the SCMC Project were not charging their time to the correct project. Without complete and accurate information on the costs of the SCMC, IRS management cannot accurately report to the Congress or estimate the future costs of consolidation. While we could not determine the actual amount unreported, we estimate that for the three sites tested (TCC, KCSC, BSC), there were approximately $1.07 million in unreported labor costs for Fiscal Year (FY) 1998.

Summary of Recommendations

The following summarizes the specific recommendations contained in the report:

1. Ensure all critical operational and technical aspects of consolidation at computing centers and service centers are standardized, thoroughly tested, appropriately documented, and included in employee training. Also, ensure that computing centers are adequately staffed.

2. Ensure contract requirements are defined by June 1999 and that proper procurement procedures are followed to obtain goods and services.

3. Ensure that all consolidation costs are accurately budgeted, captured, and reported. Also, review the reasonableness of the FY 1999 and FY 2000 SCMC budget estimates and make adjustments, as appropriate.

Management's Response: IRS management provided an adequate, detailed response to our first memorandum which addressed the first recommendation (see Appendix VI). Management's response to the remainder of the issues in this report was not available at the time this final report was issued. We provided the IRS with a draft of this report on June 30, 1999, with a 30-day calendar comment period.

Objective and Scope

This review was initiated as a continuation of the initial Service Center Mainframe Consolidation (SCMC) review (*Readiness for Service Center Mainframe Consolidation*, Reference Number 085812, dated September 21, 1998).

The overall objective was to determine whether SCMC project management controls were adequate to ensure that: (1) the problems identified in the KCSC consolidation were corrected, (2) the impact to taxpayer rights was minimized, and (3) the budget postings were accurate.

The overall objective of the review was to determine whether SCMC project management controls were adequate to ensure that: (1) problems identified during the Kansas City Service Center (KCSC) consolidation were addressed before any additional consolidations occurred; (2) the Internal Revenue Service (IRS) minimized the impact on taxpayer rights; and (3) budget postings for work on this Century Date Change (CDC) initiative were accurate. We also evaluated corrective actions taken as a result of the prior audit.[1]

We conducted the current review between September 1998 and January 1999 according to *Government Auditing Standards*. We interviewed key personnel and obtained and reviewed documentation at the following sites.

- The SCMC Project Office in McLean, Virginia.

- The Tennessee Computing Center (TCC) in Memphis, Tennessee.

- The KCSC in Kansas City, Missouri.

- The Martinsburg Computing Center (MCC) in Martinsburg, West Virginia.

- The Brookhaven Service Center (BSC) in Brookhaven, New York.

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[1] Our scope did not include the consolidation of the Communications Replacement System (CRS) or terminal replacement.

We issued two memoranda to quickly raise significant issues to IRS management's attention.

We issued two memoranda and held discussions with IRS Management and Finance (M&F) and Information Systems (IS) Division management to advise them of the most significant issues identified. The memoranda and the IRS' response to the first memorandum are included as Appendices V, VI, and VII. We issued the second memorandum near the completion of fieldwork, and did not ask for an IRS management response.

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II. Abbreviations used in this report are listed in Appendix IV.

Background

The SCMC Project is one of four critical projects monitored monthly by the IRS Commissioner's Combined Management Program for CDC and Filing Season Executive Steering Committee. The CDC initiative addresses computer problems regarding Year 2000 (Y2K).

Mainframe operations at three of the service centers have been consolidated into the computing centers.

In September 1997, the IRS formed the SCMC Project Office within the IS Division, with an objective to consolidate mainframe operations from 10 service centers to mainframes at the 2 computing centers. In June 1998, the Memphis Service Center (MSC) became the first service center to consolidate its mainframe operations into a computing center. During this audit, two other service centers' mainframe operations were consolidated— the KCSC on September 19, 1998, and the BSC on December 4, 1998. The IRS is currently reassessing the project schedule for consolidating the remaining seven service centers.

The Congress set limitations on how the IRS spent funds appropriated for the SCMC and directed the IRS to provide quarterly reports.

The IRS plans to spend approximately $360 million on the SCMC during Fiscal Years (FY) 1997 through 1999. For FY 1998, the Congress set limitations on how the IRS spent funds appropriated for the SCMC, and

directed the IRS to provide quarterly reports tracking its progress in meeting this CDC initiative.

Mainframes Targeted For Consolidation

The consolidation process involves moving applications that currently reside on mainframe computers in IRS service centers (facilities currently used to process tax returns) to mainframe computers at facilities referred to as computing centers. After consolidation, data input by the service centers will be transmitted to the computing centers for further processing, and the resulting data output will be sent back to the service centers.

The applications residing on four mainframe systems are being consolidated as part of the SCMC project.

- Service Center Replacement System (SCRS) - This system prepares tax return information for input to the IRS' main computer system, the IRS Master File, and provides on-line access to taxpayer information.

- Integrated Collection System (ICS)/Automated Collection System (ACS) - These systems support the tax collection process.

- Printer Replacement to Integrate New Tools (PRINT) - This system supports high-volume printing of tax correspondence and IRS management reports.

- Communications Replacement System (CRS) - This system is the front-end processor (routes data) for the SCRS, and provides security functions. Once consolidated, the new system is referred to as the Security and Communications System.

Results

The SCMC Project is making significant progress toward its goal, but risks remain.

The IRS is investing a significant amount of resources on the SCMC's goal of ensuring that the consolidated service centers and computing centers timely and accurately complete the processing of tax data. The consolidation is a very complex task and requires extensive coordination and effort by several contractors and IRS functions. While the SCMC Project is making significant progress toward this goal, there are several risks that IRS management must continue to address.

The KCSC consolidation resulted in significant negative taxpayer and operational impact.

The KCSC consolidation resulted in negative impact on taxpayers and IRS operations. IRS management has worked hard to minimize taxpayer impact and implement additional actions based on lessons learned from that consolidation.

The BSC consolidation was more successful due to the effective implementation of lessons learned from the KCSC consolidation.

As a result, the SCMC project achieved some success with the subsequent BSC consolidation and minimized the impact on taxpayers. However, there is still a need to improve future consolidations. During our review, we reported the following issues to IRS M&F and IS management.

- Critical risks related to the Service Center Mainframe Consolidation remain unresolved.

- Controls over technical aspects of contract administration remain inadequate.

- Staffing costs of consolidation are not accurately budgeted, captured, and reported.

As a result, IRS IS management has initiated several corrective actions based on our recommendations (see Appendix VI).

During the audit, we provided IRS M&F and IS management with detailed information on the issues that follow.

Critical Risks Related to Service Center Mainframe Consolidation Remain Unresolved

Risks were still present prior to the BSC consolidation.

We issued a memorandum on November 10, 1998, advising IRS IS management that several risks relating to testing, preparation for consolidation (automation readiness), and staffing were still present prior to the BSC consolidation. These issues were originally reported to IRS management during the prior review.

We believe these risks contributed, in part, to problems experienced by the KCSC and the TCC after consolidation.

KCSC Mainframe Consolidation to the TCC

When the KCSC mainframe operations were consolidated to the TCC on September 19, 1998, significant problems were encountered. For example, the methods used to transfer data from site to site were not efficient, some programming changes were not effectively implemented, and detailed standard operating procedures had not been developed for the consolidated environment.

In our November 10, 1998, memorandum we reported our assessment of the impact of mainframe consolidation on KCSC operations and taxpayers (see Appendix V). We also assisted IRS management in identifying affected taxpayers.

The TCC and the KCSC experienced systemic and procedural problems during the KCSC consolidation.

Systemic and procedural problems were experienced during the KCSC consolidation. Systemic problems included:

- The methods used to transfer data from site to site had not proven to be satisfactory, e.g., data transmission times were longer than expected. As a result, the IRS became concerned that it would not be able to timely process tax return information during peak periods.

- Executive Control Language (ECL) programming changes were not effectively implemented prior to the KCSC consolidation. Consequently, unscheduled ECL changes had to be made during initial processing at the TCC. These manual changes resulted in processing backlogs.

Procedural problems included:

- Personnel from the service center were not initially on-site at the computing center to assist in stabilizing the consolidated environment.

- Detailed standard operating procedures had not been developed for operations in a consolidated environment. This problem was evident when the KCSC and the TCC began to experience significant print processing problems.

Computing Centers Continue to Experience Staffing Shortages

In the November 10, 1998, memorandum we also reported that the TCC and the MCC continued to report staffing shortages with few options remaining to correct the problem, including directed reassignments which must be negotiated with the National Treasury Employees Union (NTEU).

Furthermore, we determined that if the causes of the processing and staffing problems were not corrected before the 1999 filing season, there would be a very high risk of adverse impact on a significant number of taxpayers (see Appendix V).

Recommendations

We recommended that before consolidating any additional service centers to computing centers, IS management should:

1. Ensure all critical operational and technical aspects of consolidation at computing centers and service centers (including the KCSC) are:

   a. Standardized (e.g., procedures, methodologies, naming conventions, etc.).

   b. Thoroughly tested (end-to-end).

   c. Documented appropriately.

   d. Included in employee training.

   This should include all known combinations of system-to-system and site-to-site movements of raw and processed electronic data in the consolidated and service center environments, and resulting final dispositions, whether distributed internally or externally, in printed or electronic form.

2. Ensure that critical staffing risks are reduced.

IRS IS management initiated several corrective actions to address the recommendations.

Management's Response: IRS IS management agreed to initiate the following corrective actions.

- A task force was chartered in November 1998 to identify: (1) application and transmittal configuration management issues, (2) data exchange and print issues, (3) Executive Control Language/Job Control Language (ECL/JCL) standardization, and (4) operational issues (including documentation).

- A print task force provided 60 action items in November 1998. Twenty-six items were to be addressed prior to the BSC consolidation, with the remainder to be addressed prior to any further consolidations.

- Standards will be incorporated into the SCMC Concept of Operations.

- Testing was modified to include several iterations of daily, weekly, and post-weekly

processing prior to the BSC consolidation using converted ECL.

- Additional training was provided to BSC/MCC personnel prior to the BSC consolidation. Additional training needs were identified and a schedule is being developed.

- A plan is being developed to address TCC staffing shortages. Remote support vacancies were announced. An agreement was made with the NTEU to seek supplemental staffing using third party sources.

- Retention bonuses are being considered for existing TCC personnel.

- An intern training program is being developed to address key IS staffing shortages.

BSC Mainframe Consolidation to the MCC

The BSC mainframe operations were consolidated to the MCC on December 4, 1998. While this consolidation was more successful than the KCSC consolidation, the IRS did experience some problems during the BSC consolidation. We reviewed both the preparation for consolidation and the actual transfer of processing from the BSC to the MCC (known as cutover).

Review of Preparation for Consolidation

We reviewed BSC and MCC management actions to address lessons learned from the KCSC consolidation.

We evaluated the implementation of lessons learned from the KCSC consolidation at both the BSC and the MCC and, in November 1998, we met separately with IRS IS management for both locations to discuss the results of those reviews.

BSC staff was working on several issues, including the following. These items were timely completed before the BSC consolidation to the MCC.

- Identifying expected data inputs and outputs, and file transfers needed.

- Training print operators.

The MCC staff was also working on several issues. We identified the following problems during the review of their preparations.

- **File Tracking** – The KCSC consolidation showed that the IRS needed to be able to better track files which were being transferred back and forth between the KCSC and the TCC. At the MCC, only about 800 of the 2,400 files identified for transfer on one system (UNISYS–SCRS) were being tracked. No file tracking system had been established for the other system (IBM–ICS/ACS/PRINT).

- **Staffing** – A lesson learned from the KCSC consolidation was that certain service center staff were needed at a computing center during consolidation. We provided a listing of the necessary service center positions to the MCC. No formal request had been made for the level of staffing at the MCC during consolidation.

- **Balancing** – Prior to the KCSC consolidation, run-to-run balancing controls[2] was identified by IRS IS management as a high priority risk to be reduced. A request (called a Request for Information Services, or RIS) was made to automate this balancing process. However, the majority of runs listed in the RIS were not scheduled for implementation prior to the BSC consolidation (December 1998). The majority of the RIS implementation dates ranged from January 1999 through March 2000.

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[2] Run-to-run balancing controls are needed to ensure that the number of records *input* to a computer run is the same number of records *output* from the previous run.

Also, system-to-system balancing[3] was not implemented for the KCSC consolidation. MCC personnel developed a process to help ensure they receive and balance all mid-level system inputs from the BSC prior to processing these files to the mainframes. This process is a good manual control for the BSC consolidation. However, this process will need to be automated prior to the MCC assuming the workload of additional service centers.

We identified additional risks for consideration.

In addition to reviewing the IRS' progress on addressing issues identified in the KCSC consolidation, we identified these additional risks, which we recommended be addressed before the BSC consolidation.

- Certain critical computer systems did not have backup systems.

  No backup Single Point of Operation (SPO) or Distributed Enterprise Print Controller (DEPCON) servers were present in the MCC configuration, potentially making those servers single points of failure.

- Several operating differences (e.g., differing libraries, software versions, etc.) were noted between the MCC and the TCC that create uncertainty as to their ability to back up each other in case of failure at either location (disaster recovery).

Management's Actions: After we verbally reported these issues, IRS IS management took the following actions prior to the BSC consolidation.

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[3] System-to-system balancing controls are needed to ensure that inputs and outputs between mainframe (Tier I) and non-mainframe (Tier II) computers are balanced.

- According to IRS IS staff, all UNISYS outgoing files were entered for file tracking purposes prior to consolidation.

- MCC IS management prepared a memorandum requesting formal staffing commitments for the BSC consolidation at the MCC.

- A critical system backup (DEPCON server) was installed on the consolidation weekend.

With the exception of another critical system backup (SPO server), the remaining items are being addressed by the SCMC Project Office, and were not considered crucial for resolution prior to the BSC consolidation (see Appendix VI).

Results of the Transfer of Computer Processing From the BSC to the MCC

Effectively addressing lessons learned from the KCSC consolidation improved the BSC consolidation.

The BSC consolidation was encouraging for the SCMC Project, and the return to normal processing times occurred twice as fast for this consolidation as it did for the KCSC consolidation. Some of the areas improved by addressing lessons learned from the KCSC consolidation include:

1. *Expanded Testing* – More testing was conducted for the BSC consolidation. Including actual daily work as test data appears to have had a positive impact by reducing the number of initial problems at the MCC.

2. *Programming (ECL/JCL) Changes* – Programming changes were made and tested before the consolidation, leading to fewer problems (caused by incorrect or missing ECL/JCL statements).

3. *Expected inputs/outputs and file transfers identified* – Checklists for file tracking purposes were prepared. This allowed the MCC and the BSC to determine whether all files had been

received and processed. Additional file tracking improvements are mentioned in the next section.

4. *Print operator training* – Print operator training was provided by the MCC to the BSC, resulting in fewer print operation problems. Additional print management improvements are mentioned in the next section.

A significant contributing factor to the successful BSC consolidation was the amount of cooperation and communication between the MCC and the BSC.

A significant contributing factor to the successful BSC consolidation was the amount of cooperation and communication between the MCC and the BSC. Also, the BSC provided on-site support to the MCC during the initial weeks of consolidation. This also appears to have had a positive impact on initial consolidated operations at the MCC.

Some problems occurred during initial processing after the BSC consolidation, including some programs that did not work and telecommunication hardware failures. IRS management took actions to alleviate some problems, such as using manual deposit procedures to ensure timely deposits. The IRS also temporarily suspended taxpayer notices for one week to minimize the impact on taxpayers. IRS management did not quantify taxpayer impact in its documentation detailing initial problems experienced after consolidation.

Start-up problems included server failures, unexpected system drop-off of some user sessions, and automated scheduling.

<u>Additional lessons learned to improve future service center consolidations</u>

There are lessons learned from the BSC consolidation that can be taken forward for the remaining service center consolidations.

While the BSC consolidation was very encouraging for the SCMC Project, there are still some lessons learned that can be taken forward for the remaining service center consolidations.

1. *Management of Print Processing* – Both the KCSC and the BSC experienced problems with print operations. Print operation standard operating procedures and training need to be

improved. An IRS task force identified these issues and has issued recommendations for improvement.

2. *Workload Management* – Current manual balancing controls should be replaced with automated controls. Also, the MCC implemented controls to track data and print file output needed by the service centers from the computing centers. This process needs to be refined and is listed as an open action item by IRS IS management.

3. *Preparation for Consolidation* – Prior to consolidation, the service centers need to improve some processes to take advantage of and ensure compatibility with newer technology in the computing centers. For example, the service centers need to make programming changes to ensure compatibility with newer storage media technology in the computing centers.

Augmentation uses the selected hardware, software, and procedures to position the service centers for consolidation into the two computing centers. Augmentation activities include reducing mainframe 9-track round reel tape output by converting to 36-track square tape cartridges or virtual tape, which are the common media used by the computing centers.

The number of round reels received from the BSC caused significant problems at the MCC on the first day of consolidation. The BSC could not convert some programs to create square tape cartridge output due to programming (internal assigns) present in Tier I applications. The contractor has created a program to help future consolidating service centers eliminate this problem. Also, IRS IS management is creating a National Virtual Tape Handler inclusion list to

reduce the number of tape cartridges needed for service center consolidations.

4. *Staffing* – The BSC did not have adequate liaison staff trained and in place prior to consolidation.

IRS management continues to address consolidation issues.

Management's Actions: The SCMC Project Office has begun discussing actions that need to be taken prior to consolidating another service center. We concur with management's proposed actions.

Controls Over Technical Aspects of Contract Administration Remain Inadequate

In the prior review, we recommended that IRS management provide additional resources to adequately define and validate SCMC contract requirements, and that the Project Office coordinate with the Procurement Division during price negotiations. In its response, IRS management agreed with the recommendations and established an August 1998 completion date.

As of October 1998, the IRS had not completed corrective actions scheduled for completion in August 1998.

We followed up on the implementation of corrective actions and issued a memorandum on January 13, 1999, advising IRS M&F and IS management of the following concerns. As of October 1998, the IRS had not completed the corrective actions, and inadequate controls over the technical aspects of contract administration continue to be a problem for the SCMC project.

The Project Office is not coordinating with the Procurement Division to ensure effective contract administration. As a result, delivery orders (goods and services contracted for) were not adequately defined, and goods and services were provided by the contractor without authorization from the appropriate IRS official— the Contracting Officer (CO). Lack of defined contract requirements has diminished the IRS' negotiating position. Inadequate contract administration has resulted in the contractor performing an estimated $7 million of

work without authorization from the CO. In addition, the invoices for services and travel are not being adequately verified due to lack of resources.

Delivery Orders Under the Contract Used to Fund SCMC Have Not Been Adequately Defined

Contract requirements for the SCMC project have not been adequately defined, which could result in additional contract costs.

Contract requirements for the SCMC Project have not been adequately defined, which could result in additional contract costs. As of October 1998, 32 of 44 delivery orders (for about $175 million of $215 million) remained undefinitized.

Undefinitized delivery orders are those in which the contractor has been authorized to begin work, but the cost of the work has only been proposed and not formally negotiated. Although the funds for these tasks have been obligated, the Procurement Division cannot timely and effectively negotiate final prices with the contractor because of undefined requirements and incomplete technical evaluations by the Project Office.

This issue was initially reported in a May 1998 memorandum. The Project Office responded that by August 1, 1998, additional resources would be assigned to adequately define and validate delivery order requirements, and to coordinate with the Procurement Division until all requirements could be defined for negotiations. This has not occurred. A lack of resources in the Project Office and late proposals from the contractor were among the reasons cited. The SCMC Project Manager explained that, in many cases, by the time the proposal was complete, the IRS' requirements had changed so the proposal was of no use.

The contract used to fund the SCMC is a Firm Fixed Price (FFP) Level of Effort contract. The hardware and software are FFP - the price is not subject to adjustment based on the contractor's costs. The services are level of effort - the contractor is required to provide a specified level of effort, over a stated period of time, on work that can only be stated in general terms. When using a FFP

contract, requirements need to be well defined to allow fair and reasonable prices to be negotiated.

Undefinitized delivery orders provide the IRS the flexibility to issue delivery orders quickly but, in a FFP environment, expose the IRS to possible liability for additional costs if the pricing elements are not quickly finalized. The IRS' aggressive implementation schedule for consolidation adds a great deal of pressure to the Project Office and the contractor to complete the project timely. The schedule did not allow time for well thought out requirements, which resulted in the Procurement Division issuing undefinitized delivery orders to get the project started. The pressure to stay on schedule has further hindered defining requirements, thus preventing delivery orders from being timely definitized.

Procurement management has developed a plan to definitize the delivery orders by June 1999.

In response to the Project Office's inability to define and validate the requirements, Procurement management has developed a plan to definitize the delivery orders by June 1999. The plan will be carried out in three steps which involve:

- Obtaining information from the contractor regarding goods and services ordered.

- Validating the information for pricing accuracy.

- Validating the information for accuracy, quantity, and delivery schedule and sites.

Since the requirements have not been defined and validated, the IRS is paying the contractor for its actual costs until the prices are negotiated. The earlier the prices are negotiated, the better chance the IRS has of negotiating a lower price. However, since the implementation is already under way, the IRS has lost significant leverage in negotiating lower prices.

Invoices for Services and Travel Are Not Being Adequately Verified

The Project Office has not provided the resources needed to verify invoices for services and travel, which could result in IRS paying for goods or services not received.

The Project Office has not provided the resources needed to verify invoices for services and travel, which could result in IRS paying for goods or services not received. On large, complex contracts, there should be IRS staff on-site, called Government Task Managers (GTMs), who report to the CO's Technical Representative (COTR) in the SCMC Project Office. The GTMs verify invoiced items, such as travel and labor hours worked, and report acceptance of those items to the COTR.

No GTMs have been assigned on-site due to pressure to stay on schedule. However, the Project Office is currently working on assigning GTMs on-site. Without the information GTMs provide, the COTRs cannot adequately verify items invoiced. This could potentially lead to the IRS paying for services not received or for unauthorized travel.

Currently, the COTRs sign Surveillance Reports to verify the hours worked and travel taken by the contractor. These reports state that, to the best of the COTRs' knowledge, the contractor worked the hours invoiced; however these hours are unverified and the Surveillance Reports do not provide for any visual inspection of goods or services.

Goods and Services are Being Procured Which Were Not Authorized by the Contracting Officer

Several procurements for an estimated $7 million were made without following proper procurement procedures.

The SCMC Project Office made decisions to order goods and services without obtaining approval by the CO due to an immediate need for the items. This resulted in several procurements, estimated at $7 million, which were made without following proper procedures.

According to the Federal Acquisition Regulations, only the CO has the authority to authorize work that binds the

government. An unauthorized procurement is a procurement for which someone other than the CO instructs the contractor to perform work. In cases of unauthorized procurements, the CO then has to decide whether to ratify the procurement, i.e., approve the procurement and agree to pay for the actions.

Although the funds were available and the items were needed, the Project Office did not follow the proper procurement process. They did not submit a delivery order request to the CO for processing, approval, and issuance to the contractor authorizing work to begin. For the delivery orders in question, it appears a Project Office employee authorized the contractor to begin work without the issuance of a delivery order by the CO.

In September 1998, the CO and COTR became aware of the Project Office's actions, ratified the procurement and issued undefined delivery orders and/or modifications to fund the procurements. However, the IRS will pay the contractor for only 50 percent of these procurements until the required proposals for the work are submitted and approved.

Recommendations

3. IRS management should ensure that all delivery orders are definitized by June 1999.

   a. The SCMC Project Office should validate the inventory of goods and services ordered (including validating accuracy, quantity, and delivery schedule and sites).

   b. The Procurement Division should validate the goods and services ordered for pricing accuracy.

4. IRS management should ensure that proper procedures are followed.

   a. The SCMC Project Office should establish full-time GTMs and support staff on-site to

monitor and verify deliveries, hours worked by the contractor, and travel taken by the contractor.

b. The Procurement Division should ensure that the SCMC Project Office and contractor are made aware of who is authorized to direct the contractor to perform work.

Per IRS management, delivery orders were definitized, resulting in $19 million in savings from prior requisitions.

Management's Action and Resulting Cost Savings: IRS IS management stated that delivery orders were definitized, resulting in $19 million in savings from prior requisitions.

Management's Response: Management's response was not available for inclusion in the report at the time this final report was issued. We provided the IRS with a draft of this report on June 30, 1999, with a 30-day calendar comment period.

Staffing Costs of Consolidation Are Not Accurately Budgeted, Captured, and Reported

We estimate that there was approximately $1.07 million in unreported staffing costs in FY 1998 for the three sites tested.

Staffing costs of consolidation are not being accurately budgeted, captured, and reported to the Congress[4] by the SCMC Project Office. As a result, we estimate that there was approximately $1.07 million in unreported staffing costs in FY 1998 for the three sites tested (TCC, KCSC, BSC). Without complete and accurate information on the staffing costs of SCMC, IRS management cannot accurately report to the Congress, as required, or estimate the future costs of consolidation. As a result, both the FY 1999 budget and the projected FY 2000 budget could be significantly understated.

A factor which affected the Project Office's ability to accurately budget, capture, and report staffing costs is

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[4] In *The Quarterly Congressional Report on IRS' Y2K Conversion Program.*

the funding of staff by two different IRS functions in FY 1998. The IS Division, including the Project Office, is funded by the Chief Information Officer; IS personnel in service centers are funded by the Chief Operations Officer.

Public Law Requirement: [5] Public Law 105-61 provided for the IRS' 1998 appropriations. The related FY 1998 Conference Report stated, in part, "The conferees are concerned that the Century Date Change requirements are not yet finalized and projects and activities considered as part of the program may frequently change. The conferees direct the IRS to provide quarterly reports tracking its progress in meeting this strategy. The report should include expenditure of funds, application of full-time equivalents (FTEs)…."

An FTE is the equivalent of one person working eight hours per work day (including holidays and paid leave) for one year. SCMC staffing costs are estimated and budgeted in FTEs through individual office budgets. Actual expenses are then recorded using the Project Cost Accounting System (PCAS) code to allow for tracking of budget and actual expenditures by project on the Automated Financial System (AFS). The PCAS is the official source for reporting IS project costs, and the SCMC Project has been assigned a specific PCAS code.

Offices were not consistent in how they budgeted and charged staffing costs.

Because IRS IS management did not issue comprehensive directions for budgeting and charging staffing costs, offices were not consistent in how they did so. The SCMC Project Office budgeted $3.7 million for its immediate staff. Other offices, such as the service centers and district offices, estimated and

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[5] Source: FY 1998 Joint Explanatory Statement. Also, in the Executive Summary section of the October 1, 1997, Report to the Congress, the IRS identified SCMC as a stay-in-business initiative that achieves Y2K Compliance goals.

Service centers are not accurately accounting for all staffing costs of the SCMC.

budgeted their staffing needs through their individual budgets. AFS reports show that:

- Some service centers did not budget or charge any basic salary costs for SCMC work; however, they did charge costs such as overtime, travel, and training related to the SCMC project.

- Eighty percent of 218 employees working on the SCMC project at the TCC, the KCSC, and the BSC had *no* time charges to the project.

To confirm the time charges on the AFS report, we attempted to contact 146 of the 218 employees working on the SCMC at the three locations. Of the 78 employees who responded, 55 (71 percent) stated they worked on the SCMC during FY 1998. However, not all of the time charges for these individuals were reflected under the SCMC PCAS code on AFS. Additionally, other field personnel informed us that staffing costs associated with the SCMC were charged to a general PCAS code and not the SCMC PCAS code.

Because IRS IS management did not issue comprehensive directions regarding budgeting and charging staffing costs, SCMC staffing budgets were inaccurate. Also, the FY 1999 and projected FY 2000 budgets do not include FTEs and labor for the service centers and computing centers.

IRS IS management documented the problem with budgeting and capturing costs, but did not ensure that all costs were reported.

In February 1997, the Deputy Commissioner had issued a memorandum emphasizing the importance of using PCAS codes for IS expenditures. The SCMC Project Office documented the problem of improper usage of PCAS codes in April 1998.[6] However, IRS management did not take timely action to identify all the offices incurring staffing charges, and did not ensure that all costs were reported.

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[6] In the joint 1st and 2nd Quarter Investment Review (dated April 28, 1998).

*The Quarterly Congressional Report on IRS' Y2K
Conversion Program* (which includes SCMC) does not
reflect information on expenditure of funds or FTE
budgeting, as required by congressional mandate in the
FY 1998 Conference Report. Further, the Project Office
is not maintaining sufficient documentation to support
the information reported to the Congress.

We identified the following report discrepancies.

- During FY 1998, the IRS obligated
  $161.7 million and expended approximately
  $104.7 million on consolidation efforts. The IS
  Budget Office provided a format for reporting
  information on obligations. As a result, the four
  quarterly reports issued during the fiscal year
  reported obligations, not expenditures.

- The Project Office budgeted for 14 FTEs and
  expended 53 FTEs for FY 1998. This
  expenditure was not reported.

  The IS Budget Office was responsible for
  gathering data for the report, and did not require
  the SCMC Project Office to report its FTE
  expenditures.

Without a coordinated and comprehensive disclosure of
the use of SCMC funds in the quarterly congressional
reports showing obligations *and* expenditures, the IRS
cannot ensure an effective accounting and control of
appropriated funds, or meet congressional requirements.

Recommendations

5. The Chief Information Officer should ensure that
   all consolidation costs, whether incurred at the
   Project Office or field levels, are accurately
   budgeted, captured, and reported by:

   a. Developing a comprehensive IRS policy for
      preparing budgets for automation projects.

b. Ensuring the SCMC Project Office implements a process to ensure that all employees conducting SCMC related tasks use the SCMC PCAS code to properly account for costs.

c. Ensuring that information in the quarterly congressional report complies with the requirements of the congressional mandate to report expenditures and FTEs.

6. The Chief Information Officer should review the reasonableness of the FY 1999 and FY 2000 SCMC budget estimates and make adjustments, as appropriate.

Management's Response: Management's response was not available for inclusion in the report at the time this final report was issued. We provided the IRS with a draft of this report on June 30, 1999, with a 30-day calendar comment period.

Follow-up on IRS Management's Corrective Actions for Previously Reported Deficiencies

We followed up on four additional corrective actions scheduled for completion during the audit period.

In addition to the follow-up work on consolidation and contracting risks (see pages 5 and 14), we also followed up on four corrective actions related to the previous review that were scheduled for completion during the current audit period. Three of the four corrective actions were effectively implemented, but the fourth corrective action was only partially completed. Due to changes currently being considered by the IRS that may considerably reduce the staffing resources required of the service centers during consolidation (see Appendix VI), we are not currently recommending that this corrective action be fully completed. Our analysis follows.

Follow-up on Recommendation Number 1

We recommended that the Project Office obtain resources to provide accountability for the identification, documentation, assignment, and monitoring of all short and long-term actions required from the field offices and the national office to successfully implement the consolidation plan. Project management should also update its communications plan to include the necessary weekly meetings, conference calls, etc., and require participation of field offices, as appropriate, to monitor and communicate the status of critical tasks.

Proposed Corrective Actions: The SCMC Project Office will develop a "SCMC Web Page" and work with National Office Communications to have SCMC project information included in workforce transition issues and other appropriate communication channels. In addition, the SCMC Project Office will incorporate the "end user" in the Integrated Process Team process by appointing an "end user" representative to the Integrated Process Team Steering Committee.

Audit Work Performed: We verified that a SCMC Web Page was established. We also reviewed minutes of the Risk Oversight Committee (ROC) meetings and Executive Steering Committee minutes and noted that IRS Executives were present for oversight purposes.

Follow-up on Recommendation Number 2

We recommended that IRS management raise fall-back[7] as a risk through the SCMC ROC and ensure that sub-risks, such as lack of a tested fall-back plan and effects on service level agreements, are considered by the ROC for elimination.

Proposed Corrective Actions: The SCMC Project Office stated that a plan would be created to provide for

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[7] "Fall-back" is the ability to resume mainframe operations in the service center environment in case the consolidation of mainframe operations to the computing center environment is not successful.

a three-day window for a service center fall-back to its former environment with minimal data loss. Problems occurring subsequent to this three-day period would be resolved by the IRS and vendor technicians in the new environment.

Audit Work Performed: We determined that fall-back was addressed by the ROC, and BSC's network consolidation procedures included provisions for fall-back.

Follow-up on Recommendation Number 3

We recommended that the Project Office request written assurances from Service Center and National Office Directors that the necessary resources would be committed to accomplish near-term SCMC objectives.

Proposed Corrective Action: The SCMC Project Office stated they would obtain the formal assurance for resources from Service Center Directors.

Audit Work Performed: We determined that three service center directors had responded that they would provide adequate staffing for the upcoming consolidations. One service center director responded that she would not be able to provide staffing for the upcoming consolidations. After further review, we determined that changes forthcoming in the consolidation method may lead to less staffing needed from the service centers for the upcoming consolidation (see Appendix VI). Therefore, until the IRS determines the amount of service center support needed for the upcoming consolidations, we are not recommending that this action be completed.

Follow-up on Recommendation Number 4

We recommended that the Project Office assign a full-time COTR for the contract, thus separating the COTR's and Program Manager's duties.

Proposed Corrective Action: The SCMC Project Office will assign a new COTR.

Audit Work Performed: We determined that a new full-time COTR had been assigned.

Conclusion

The SCMC Project goal of consolidating the mainframe processing at 10 service centers into 2 computing centers is a very complex task and requires extensive coordination and effort by several contractors and IRS functions. While the project is making significant progress towards its goal, the IRS needs to ensure that future service center consolidations, technical contract administration, and budget accounting are improved.

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the Internal Revenue Service's (IRS) Service Center Mainframe Consolidation (SCMC) project management controls were adequate to ensure that: (1) problems identified during the Kansas City Service Center (KCSC) consolidation were corrected before additional consolidations occurred, (2) consolidation minimized the impact on taxpayer rights, and (3) budget postings were accurate. We also evaluated corrective actions taken as a result of the prior review, *Readiness for Service Center Mainframe Consolidation*, Reference Number 085812, September 21, 1998.

I. To evaluate key process controls regarding pre-consolidation readiness and post-consolidation operations at the KCSC and the Brookhaven Service Center (BSC), we:

   A. Evaluated the process of run-to-run balancing and system-to-system balancing between the Tier I (mainframe) and Tier II (non-mainframe) systems in the consolidated environment.

   B. Evaluated the impact of the KCSC consolidation on taxpayers by determining whether notices, liens, and lien releases were timely processed.

   C. Determined the IRS' readiness to consolidate the BSC's mainframe operations by assessing actions taken to address lessons learned from the KCSC consolidation.

      1. Determined the BSC's readiness to consolidate its mainframe operations.

      2. Determined the Martinsburg Computing Center's (MCC) readiness to consolidate the BSC mainframe operations.

   D. Determined the effectiveness of the IRS' efforts to control and resolve any adverse effects of the BSC consolidation.

      1. Determined the impact of the BSC consolidation on taxpayers.

      2. Determined any lessons learned (positive or negative) from the BSC consolidation.

II. To determine if the IRS was effectively assessing and monitoring the costs associated with the SCMC, we:

   A. Analyzed the SCMC Budget Summary included in *The Quarterly Congressional Report on IRS' Year 2000 Conversion Program* to determine the following:

      1. How the information was compiled.

2. If the information was comprehensive and accurate.

3. If the information was consistent with recorded financial events.

4. If the information in the budget summary was consistent with any internally generated reports.

B. Determined whether a Fiscal Year (FY) 1998 Project Cost and Accounting System (PCAS) code was being used to capture SCMC costs and, if it was, conducted the following tests:

1. Interviewed IRS personnel to determine if they charged SCMC full-time equivalent (FTE) time to the PCAS code.

2. Compared a list of personnel who were identified as working on the SCMC with a list of personnel who charged time to the SCMC PCAS code. Contacted any personnel who were not on the PCAS report to determine what PCAS code they charged their time to.

3. Selected 146 of the 218 IRS personnel who charged time to the SCMC PCAS code during FY 1998 at the BSC, the KCSC, and the Tennessee Computing Center (TCC). Attempted to contact the 146 people to determine if the work being performed was related to the SCMC.

4. Through an analysis of FY 1998 expenditures, determined the types of expenditures made related to the SCMC.

III. Conducted follow-up to recommendations/corrective actions taken as a result of the prior review.

A. Evaluated the status of staffing for computing centers.

1. Determined if written staff commitments from Service Center and National Office Directors had been obtained to accomplish near term SCMC objectives.

2. Determined the status of the Letter of Understanding regarding staffing.

3. Determined the adequacy of IRS management's actions to ensure adequate staffing was available either on-site or remotely at the TCC and the MCC to effectively plan for filing season processing needs.

B. Followed up on contracting concerns.

1. Determined if the project had assigned additional resources to adequately define and validate delivery order requirements.

2. Determined if IRS Information Systems management was coordinating with Procurement until all delivery orders were definitized for negotiations.

3. Determined if a new contract administration structure had been implemented.

4. Determined if a new Contracting Officer's Technical Representative was officially designated.

5. Determined if the baseline change request process and procedures were revised to ensure integration with acquisition, contracting, and budget processes.

C. Determined the status of corrective actions for all project control improvement recommendations.

1. Identified all project control improvement recommendations from the review.

2. Evaluated IRS management's response and proposed corrective action(s).

3. Identified the official(s) responsible for taking corrective action and the proposed completion date(s).

4. Obtained confirmation that corrective action(s) had been taken, completed, or initiated.

5. Evaluated the results of the corrective action(s) taken, completed, or initiated.

Major Contributors to This Report

Scott Wilson, Associate Inspector General for Audit (Information Systems Programs)

Control Office

Susan Boehmer, Director
Danny Verneuille, Audit Manager
Joseph Wabnitz, Audit Manager
Vann Coe, Senior Auditor
Troy Paterson, Senior Auditor
Van Warmke, Senior Auditor
Catherine Cloudt, Auditor
Roy Evans, Auditor
Perrin Gleaton, Auditor

Support Offices

Baltimore, Maryland
Gary Swilley, Audit Manager
Anthony Choma, Senior Auditor
Wallace Sims, Senior Auditor
Mary Thomas, Senior Auditor
John Baxter, Auditor
Joseph Cooney, Auditor

Kansas City Service Center
Gary Manning, Audit Manager
Larry Gore, Senior Auditor
John Hawkins, Senior Auditor
Kenneth Bennett, Auditor
Kathleen Hughes, Auditor
Ronald Stuckey, EDP Auditor

Brookhaven Service Center
Robert Irish, Audit Manager
Carol Gerkens, Auditor
Gail Schuljan, Auditor

Office of Audit Projects
Vincent Dell'Orto, Audit Manager
Theresa Haley, Senior Auditor
Andrew Harvey, Auditor

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Office of Information Resources Management IS:IR
Chief Management and Finance M
Assistant Commissioner (Program Evaluation and Risk Analysis) M:OP
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National Director for Budget M:CFO:B
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Assistant Commissioner, Procurement M:P
Chief Operations Officer OP
Executive Officer for Service Center Operations OP:SC
Director, Kansas City Service Center D
Director, Brookhaven Service Center D
National Director for Legislative Affairs CL:LA
Audit Liaisons:
      Service Center Mainframe Consolidation IS:O:O
      Deputy Chief Information Officer, Systems Development IS:S
      Deputy Chief Information Officer for Information Resources Management IS:IR
      Chief, Audit Assessment and Control IS:I:IS:O:A
      Management Controls Coordinator for Office of Chief, Management and
            Finance M
      Executive Assistant to the Assistant Commissioner (Procurement) M:P
      Executive Officer for Service Center Operations OP:SC:SP:P

The Service Center Mainframe Consolidation Project Has Made Significant Progress, But Project Execution and Administration Risks Remain

Appendix IV

Abbreviations Used in This Report

ACS   – Automated Collection System

AFS   – Automated Financial System

BSC   – Brookhaven Service Center

CDC   – Century Date Change

CO   – Contracting Officer

COTR   – Contracting Officer's Technical Representative

CRS   – Communications Replacement System

DEPCON – Distributed Enterprise Print Controller

ECL   – Executive Control Language

FFP   – Firm Fixed Price

FTE   – Full-Time Equivalents

FY   – Fiscal Year

GTM   – Government Task Managers

ICS   – Integrated Collection System

IRM   – Internal Revenue Manual

IRS   – Internal Revenue Service

IS   – Information Systems

JCL   – Job Control Language

KCSC   – Kansas City Service Center

M&F   – Management and Finance

MCC   – Martinsburg Computing Center

MSC   – Memphis Service Center

NTEU   – National Treasury Employees Union

PCAS   – Project Cost Accounting System

PRINT   – Printer Replacement to Integrate New Tools

ROC   – Risk Oversight Committee

RIS   – Request for Information Services

SCMC   – Service Center Mainframe Consolidation

SCRS   – Service Center Replacement System

SPO   – Single Point of Operation

TCC   – Tennessee Computing Center

TEBB   – Taxpayer Service Electronic Bulletin Board

Y2K   – Year 2000

Memorandum #1: Outstanding Risks Related to Service Center Mainframe Consolidation

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
2900 WOODCOCK BLVD
CHAMBLEE, GA 30341

REGIONAL INSPECTOR

November 10, 1998

RESPONSE DUE: November 25, 1998

MEMORANDUM FOR CHIEF INFORMATION OFFICER IS

FROM: for Acting Regional Inspector *M. Susan Bochmer*
                                   Southeast Region

SUBJECT: Internal Audit Memorandum – Outstanding Risks Related
                                   to Service Center Mainframe Consolidation

This is the first memorandum issued to you as part of our second phase of auditing the Service Center Mainframe Consolidation (SCMC) project. Several risks we identified in our earlier review relating to testing, automation readiness and staffing are still present. We believe these risks may have contributed, in part, to post cutover problems experienced by the Kansas City Service Center KCSC) and Tennessee Computing Center (TCC) from September 21, 1998 to the present.

We are providing the attached information to advise you of our concerns regarding the continued transfer of service center mainframe processing operations to computing centers until all identified high-risk issues are satisfactorily resolved.

If you are in agreement with the facts presented, please follow the procedures for responding to audit memoranda outlined in Internal Revenue Manual (IRM) 1289. Due to the time sensitive nature of these issues, I would appreciate your response within ten workdays. If you disagree with any of the facts presented or would like to discuss these issues further, please contact acting Assistant

Regional Inspector Susan Boehmer at 770-986-6910 or Audit Manager Danny Verneuille at 901-546-3111.

Attachment

CHIEF INFORMATION OFFICER   Attachment

Critical Risks Related to Service Center Mainframe Consolidation Remain Unresolved

In our earlier review of SCMC, we issued several Internal Audit Memorandums between February and May of 1998 that identified issues which included, but were not limited to:

- SCMC testing plans did not include full, sustained functionality of a consolidated environment beyond weekend processing,

- Controls were not sufficient to manage concurrent processes to (1) prepare a Service Center's mainframe applications, data files, telecommunications equipment, etc. for transfer to a Computing Center and (2) prepare the Computing Centers to assume these responsibilities; and,

- Staffing plans did not include contingencies if experienced Information Systems personnel did not voluntarily relocate as needed.

At present, these issues still prevail and continue to hinder the success of the SCMC project while exposing the Service to unnecessary risks. Further, if the causes of these problems are not corrected before the 1999 filing season, there is a very high risk of adverse impact on a significant number of taxpayers. In the seven weeks following the Kansas City Service Center (KCSC) mainframe cutover to TCC:

- Management has not established a reliable system that can identify, control and ensure proper correction of significant processing failures created by consolidation at KCSC. Because of the lack of a system, management has to rely on the INOMS System, which was not specifically developed to control numerous technical and operational mainframe consolidation problems and failures. Taxpayers have been adversely impacted in several areas, including untimely notification of liability amounts and account status, because of the numerous problems and an inadequate system and process to quickly react to problems and correct the causes. KCSC, through a significant investment in staff power, is working to mitigate the impact on individual taxpayers. However, there is still a risk that taxpayers' rights will be severely violated, such as initiating levy actions before issuing final notices or issuing erroneous levies on full paid accounts.

The following issues, impacting taxpayers, resulted from the KCSC consolidation:

- **5,900 taxpayers did not receive timely notice of balance dues.** Most of these taxpayers have still not received their notices including taxpayers who

should have received a notice on September 28, 1998. The Service is currently working on revising the notices with later dates so they can be mailed to taxpayers.

- **84,000 taxpayers did not receive reminder notices of installment payments due.** These notices would have included a payment voucher and envelope for the taxpayer to use when sending in their payments. Therefore, some payments may be misapplied because taxpayers did not receive pre-printed payment vouchers. The Service is taking action to minimize some of the adverse taxpayer impact. A computer program updated taxpayer accounts to prevent default of installment agreements if the required payments were not made. The Service also had plans to notify Taxpayer Service through a notice on the electronic bulletin board (TEBB) of the problem; however, to date, we have not seen evidence that this has occurred.

- **4,100 taxpayers have not been notified as to why their tax refunds were either partially or totally offset to pay other outstanding or potential liabilities.** This includes taxpayers with refunds that were offset as early as September 28, 1998. Taxpayers may call IRS and ask what happened to their refund and could be told they were notified it had been offset, when in fact, they had not received the notice. This adversely affects IRS efforts to provide quality customer service.

- **18,400 taxpayers have not received reminder notices of prior taxes due that should have been mailed out on or before September 28, 1998.**

- **64,100 taxpayers have not received timely notice of delinquent tax liabilities.** This includes almost 44,000 taxpayers who should have received their final notice that tells the taxpayer of our intent to levy to collect the unpaid taxes. If these notices are not issued soon, levies could be initiated before the final notices are issued. Internal Audit is assisting the Service in using an automated program to generate the 64,100 delinquent tax liability notices with revised dates and extend the time for payment before these accounts are automatically updated to enforcement collection action.

- **700 service center notices for duplicate filing conditions were not generated timely to Adjustments Branch.** This is delaying issuance of refunds or balance due notices for amended tax returns.

The Service Center Mainframe Consolidation Project Has Made Significant Progress, But Project Execution and Administration Risks Remain

CHIEF INFORMATION OFFICER   Attachment

Additional concerns:

- There were significant problems with running the KCSC automated schedule at TCC. At the end of the first week, TCC was behind schedule by an estimated 1,000 computer runs. With each passing week, backlogs were reduced significantly.

- Over 1,000 problems were documented by KCSC. TCC reports indicate as of November 3, there were approximately 200 known problems outstanding. Issues ranged from unavailable real-time to a lack of control over managing and printing internal reports and taxpayer notices. In some instances, multiple "trouble tickets" were generated on the same issues.

- The use of channel extension and the RICOPY utility as a means to transfer data from site to site has not proven to be satisfactory and may not be viable during filing season peak volume. This issue has been a primary cause of TCC's inability to timely transmit critical KCSC Tier II system updates such as the Automated Lien System and Automated Substitute for Return. In some instances, TCC is shipping tapes to third parties because they are unable to transmit them with channel extension. It appears that time would not permit any substitution for channel extension to be fully, end-to-end tested before the planned cutover of the Brookhaven Service Center to the Martinsburg Computing Center during the weekend of December 4,1998.

- TCC and MCC continue to report staffing shortages with few options remaining including directed reassignments, which must be negotiated with the National Treasury Employees Union (NTEU). As of October 27, 1998:

  ➢ Of 190 authorized positions at TCC, there are 53 vacancies (28%). Also, 16 technical employees detailed to TCC must return to their service centers by December 18, 1998.

  ➢ Of 116 authorized positions at MCC, there are 25 vacancies (22%).

  If the computing centers combined are at 75% of authorized staffing at this stage of consolidation, it is not clear how they will operate increasing workloads and also be responsible for business resumption/disaster recovery for one another.

The Service Center Mainframe Consolidation Project Has Made Significant Progress, But Project Execution and Administration Risks Remain

Recommendations

Before cutover of any additional service centers to computing centers, management should:

(1) Ensure **all critical operational and technical aspects of consolidation** at computing centers and each individual service center (including KCSC) are:

  a. standardized (e.g., procedures, methodologies, naming conventions, etc.),
  b. tested end-to-end,
  c. documented appropriately; and,
  d. included in employee training.
     This should include all known combinations of system-to-system and site-to-site movements of raw and processed electronic data in the consolidated and service center environments and its resulting final disposition, whether distributed internally or externally in printed or electronic form.

(2) Ensure that critical staffing risks are mitigated.

Management's Response to Memorandum #1

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

DEC 29 1998

MEMORANDUM FOR CHIEF INSPECTOR

FROM: David W. Junkins
                  Director, Office of Information Resources Management IS:IR

SUBJECT: Internal Audit Memorandum - Outstanding Risks Related to
                  Service Center Mainframe Consolidation

The Deputy Chief Information Officer for Systems (IS) has reviewed the subject Internal Audit Memorandum and provides the management response attached.

If you have any questions, please call me on (202) 283-4060 or have a member of your staff call Donna Downing on (202) 283-4159.

Attachments

Attachment

**Response to Internal Audit Memorandum
Outstanding Risks Related to Service Center Mainframe Consolidation
(SCMC)**

Recommendation #1

Before cutover of any additional service centers to computing centers, management should:

(1) Ensure all critical operational and technical aspects of consolidation at computing centers and each individual service center (including Kansas City Service Center [KCSC]) are:

a. standardized (e.g., procedures, methodologies, naming conventions, etc.),
b. tested end-to-end,
c. documented appropriately; and,
d. included in employee training.

This should include all known combinations of system-to-system and site-to-site movements of raw and processed electronic data in the consolidated and service center environments and its resulting final disposition, whether distributed internally or externally in printed or electronic form.

Assessment of Cause

a. Standardization - In the original plan for consolidation, an assumption was made that the transition to the computing centers would require little change to internal operating procedures on the part of the service centers. This assumption failed to take into consideration the lack of standards that existed within service centers (i.e., no published Internal Revenue Manual (IRM) for standard service center concept of operations), and the differences in local processing procedures and methodologies as well as the full scope of inherent change caused by the introduction of new technologies. There are differences in the Information Systems (IS) processes and procedures due to local IS requirements, as well as differences due to business preferences and requirements. This lack of standardization impacted consolidation, which resulted in more significant problems during the transition than originally projected, and complicated the recovery and catch-up when the Tennessee Computing Center (TCC) fell behind initially.

1

b. End-to-End testing - The testing in preparation for the KCSC cut over was done primarily to validate the functional and performance characteristics of the consolidated technologies. These tests were designed to verify that the legacy tax processing applications would run in the consolidated computing center technical environment, but failed to include the full suite of Tier II and external trading partner system interfaces used for the KCSC production workload after it was moved to the computing center. Because these areas were not thoroughly tested, the TCC did not detect missing elements that were necessary for automated tape processing within the consolidated environment. These were not identified until after the production cut over. These problems, as well as local KCSC idiosyncrasies, caused the TCC to develop a significant backlog of jobs during the initial production period. Once the backlog of jobs extended beyond a 24-hour period, it caused further impacts within the automated system management tools, which required a substantial amount of manual operations until the backlog was reduced. This complicated the process and extended the time frame for accomplishing the work. If more comprehensive end-to-end testing,had been done prior to the cut over, some of these problems could have been avoided.

c. Documented appropriately - The work required to develop and implement the automation necessary to manage a second service center at the TCC was underestimated, given resources available and the time frames established to meet Y2K compliancy requirements. With the limited resources at the TCC and the KCSC, there was insufficient time to adequately document all processes and procedures prior to consolidation.

d. Employee training – A total of $1.3M was spent on training; however, the training was not reinforced by operational testing of new standard operating procedures. Also, it highlighted individual shortcomings given that printer and tape peripherals were functioning similar to legacy environment.

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Corrective Action #1a for Recommendation #1

A task force was chartered on November 2, 1998, co-chaired by National Operations and Systems Development to identify application and transmittal configuration management issues, data exchange and print issues, Executive Command Language/Job Control Language (ECL/JCL) changes (standardization) as well as other operational issues, including providing documentation. Team members include representatives from all IS stakeholder organizations. In addition, two integrated process teams (IPTs) were formed to focus on remaining print issues, as well as to review the current operational procedures at both the KCSC and the TCC; and the second group focused on application changes, data exchange, ECL/JCL issues, and documentation. The groups identified issues and categorized subsequent actions into three priority levels: short-term, interim, and long-term.

An assessment of the remaining open print problems at the KCSC was conducted November 19-22, 1998. The assessment yielded 26 action items. Findings applicable to the Martinsburg Computing Center (MCC) and the Brookhaven Service Center (BSC) were shared with both organizations prior to migration. All action items are being coordinated with the responsible organizations. The second group identified 34 issues that must be resolved prior to additional migrations. These issues are being incorporated into a plan, with specific target dates for resolution. The Project Management Office (PMO) is requesting that each area, where applicable, provide an action plan or work breakdown structure (WBS) with milestones which will then be tracked and measured.

Recommended standards resulting from the above task groups will be incorporated into the SCMC Concept of Operations under development by. Assistant Commissioner National Operations.

Implementation Date

Completed: _____   Proposed: ___January 1 thru July 1, 1999___
                                Completion of corrective actions identified by
                                task groups. See Attachment 1.

Responsible Official

Chief Information Officer IS
Deputy Chief Information Officer (Systems) IS
Deputy Chief Information Officer (Operations) IS
Assistant Commissioner for Systems Development IS:S
Assistant Commissioner for National Operations IS:O
Project Director Mainframe Consolidation IS:S:MC

3

Corrective Action #1b for Recommendation #1

End-to-End Testing – Subsequent migrations will incorporate the test strategy used by the MCC for the BSC migration (i.e., perform several iterations of daily, weekly and post weekly processing using converted ECL that will be used for production). In addition, the testing will include validation of print files, Tier II files, and external trading partner files.

Implementation Date

Completed: _____   Proposed: ___January 1 thru July 1, 1999___
                                 Completion of corrective actions identified by
                                 task groups. See Attachment 1.

Responsible Official

Chief Information Officer IS
Deputy Chief Information Officer (Operations) IS
Deputy Chief Information Officer (Systems) IS
Assistant Commissioner for Systems Development IS:S
Assistant Commissioner for National Operations IS:O
Director Martinsburg Computing Center IS:O:M
Acting Director Tennessee Computing Center IS:O:T
Project Director Mainframe Consolidation IS:S:MC

4

Corrective Action #1c for Recommendation #1

Documentation is being addressed under Corrective Action #1a. Specific target
dates will be assigned to action items to ensure proper documentation is
completed prior to future migrations.

Implementation Date

Completed: _____   Proposed: ___January 1 thru July 1, 1999__
                                 Completion of corrective actions identified by
                                 task groups. See Attachment 1.

Responsible Official

Chief Information Officer IS
Deputy Chief Information Officer (Operations) IS
Assistant Commissioner for National Operations IS:O

5

Corrective Action #1d for Recommendation #1

Additional channel extension training was provided to the BSC/MCC employees prior to migration. The TCC provided refresher training on the automated systems management tools after the KCSC migration. National Operations and the MCC personnel provided training to transfer and print files at the BSC prior to the BSC migration. National Operations personnel were also on site during the BSC migration to address any operations issues occurring during migration. Specific training needs for the computing centers have been identified and captured in the issues database. The PMO is currently working with the TCC, MCC and Corporate Education to develop a timetable for delivery. The TCC has identified training needs for third party supplemental staffing and will provide it on an individual basis. The MCC personnel received on-the-job training (OJT) in the consolidated environment at the TCC. In addition, supplemental staffing support provided by the BSC during migration will provide OJT for the MCC employees on the BSC processing.

Implementation Date

Completed: _____   Proposed: __February 1, 1999__
Identification of operational and technical
training needs.

Responsible Official

Chief Information Officer IS
Deputy Chief Information Officer (Operations) IS
Deputy Chief Information Officer (Systems) IS
Assistant Commissioner for Systems Development IS:S
Assistant Commissioner for National Operations IS:O
Director Martinsburg Computing Center IS:O:M
Acting Director Tennessee Computing Center IS:O:T
Project Director Mainframe Consolidation IS:S:MC

6

Recommendation #2

Before cutover of any additional service centers to computing centers, management should:

(2) Ensure that critical staffing risks are mitigated.

Assessment of Cause

Management relied on the voluntary movement of skilled personnel from the service centers to the computing centers to fill needed vacancies at the computing centers. Even with incentives, such as relocation bonuses and moving expenses, there were insufficient volunteers to adequately staff the computing centers. Contributing to this was the belief, by displaced employees, that there would be no negative impact regarding the continuation of their jobs at their present location, at their current grade and pay.

7

Corrective Action #1 for Recommendation #2

National Operations along with the TCC is developing a detailed plan to address staffing shortages. This plan includes additional recruitment efforts of displaced personnel from Department of Defense (DOD), Defense Information Systems Agency (DISA) sites.

The TCC also reannounced vacancies on October 7, 1998, on USA Jobs, along with internal announcements on September 28, 1998, for computer systems analyst and data base administrator vacancies for remote support.

The MCC anticipates meeting hiring needs through external and internal announcements.

Implementation Date

Completed:_____

Proposed:___May 1, 1999_____
Reannounce vacancies at TCC and MCC; selection of entry level/career ladder positions.

Responsible Official

Chief Information Officer IS
Deputy Chief Information Officer (Operations) IS
Assistant Commissioner for National Operations IS:O
Acting Director Tennessee Computing Center IS:O:M
Director Martinsburg Computing Center IS:O:T

8

Corrective Action #2 for Recommendation #2

Obtained tentative concurrence from the National Treasury Employees Union (NTEU) on October 19, 1998, to explore temporary supplemental staffing for the TCC using third party sources. The Assistant Commissioner for National Operations has prepared a draft Statement of Work (SOW) defining staffing requirements and a memorandum to the NTEU outlining the staffing proposal.

Implementation Date

Completed:_____

Proposed: __January 1, 1999__
Statement of Work will be issued to secure third party temporary supplemental staffing for TCC.

Responsible Official

Chief Information Officer IS
Deputy Chief Information Officer (Operations) IS
Assistant Commissioner for National Operations IS:O
Acting Director Tennessee Computing Center IS:O:T

9

Corrective Action #3 for Recommendation #2

A memorandum is in the approval process to provide retention bonuses to employees in key critical positions at the TCC.

Implementation Date

Completed:_____   Proposed: __February 1, 1999__
                                    Approval to provide retention bonuses
                                    to employees in key critical positions at
                                    TCC.

Responsible Official

Chief Information Officer IS
Deputy Chief Information Officer (Operations) IS
Assistant Commissioner for National Operations IS:O

10

<u>**Corrective Action #4 for Recommendation #2**</u>

Implement a national "intern" training program to address the shortage of critical technical skills in IS with emphasis on supporting computing and service centers. This program will also provide career enhancement opportunities for employees throughout the Service.

<u>**Implementation Date**</u>

Completed:_____   Proposed: __March 1, 1999___
                                     Plan approved for a national "intern"
                                     training program.

<u>**Responsible Official**</u>

Chief Information Officer IS
Deputy Chief Information Officer (Operations) IS
Assistant Commissioner for National Operations IS:O

11

Page 51

MAINFRAME CONSOLIDATION ISSUES

ISSUE NR	ISSUE DESCRIPTION	RESPONSIBILITY	SUSPENSE	STATUS
	IC3/AC3			
1	Implementation of Central D for all output to SCs (IBM only) (Exception: DEPCOM printing will be used for call site output) Solution: Increase or Improve Operator Training for SC and CC on print procedures and print queues. Review Martinsburg solution. Develop and use manual processes and institute use of Control	OP/SSO/PMO	1-Jan-99	YELLOW
2	Collection of cycle information. Solution: Automatically attach cycle information at the job card level. Prioritize hot files, look at scheduler, provide training	SSD	1-Jan-99	YELLOW
3	Review how DEPCON is being used, verify queues, document processes and train operators	OPS/SC/CC	1-Jan-99	YELLOW
4	Review all Unisys processes on how they are being used, document processes and train operators	OPS/PMO	1-Jan-99	RED
	FTP/RJ COPY			
5	No complete list of files	OPS/CC	1-Jan-99	YELLOW
6	Unknown if there is enough tape drive capacity (not ATL). ATL performance/capacity measurements of current and projected p/c	PMO/SSD/OPS	1-Jan-99	RED
7	Unlabeled tapes present copy problems resulting in corrupted data	SD	1-Jan-99	RED
8	Multiple tape files have common file names	SD/SSD	1-Jan-99	RED
9	the control mechanism for soundtary processing and printing files at SC and CC	OP&PMO/SD/SSD	1-Jan-99	RED
10	Maintenance of new IBM jobs created as a result of consolidation. Migrate new jobs from CC to SAW Development after a new utility is developed and main copy process	OPS/SD/SSD	1-Jan-99	RED
11	Responsibility of managing and maintaining automation interfaces	PMO	1-Jan-99	RED

LEGEND:
RED = SHORT TERM
YELLOW = MID TERM

1 12/8/98 Revision 1.1

MAINFRAME CONSOLIDATION ISSUES (Continued)

ISSUE NR	ISSUE DESCRIPTION	RESPONSIBILITY	SUSPENSE	STATUS
	END OF YEAR			
12	New changes will overlay locally modified ECL at CC. Solution: Memo to IS DC directing comparison to be done at normally scheduled time. Transmittal memo for simulation/production needs to be reviewed by CC and SC ASAP. Need for communication and educard	SD/OPS/SSO/PMO	1-Jan-99	YELLOW
13	Local offices unaware of what changes have been made. Solution: In INFONOCC to go out to SC and CC to identify and alert to what programs have internal assigns or special file types	SO	1-Jan-99	YELLOW
14	Changes have already been transmitted for simulation/production. Solution: National Office MUST be informed of local changes from consolidated sites. Create a baseline	OP&CC	early Feb 99	RED
15	ACS cartridges always point to ATL. Solution: Create list of stand-alone cartridges then enhance the transmittal system. Change Control T default/tape pool to point to ATL	SS/OPS	12-Jan-99	RED
	STANDARDS/CONFIGURATION MANAGEMENT			
16	All media changes made in one CC should be made in all CC	OP&CC	1-Mar-99	RED
17	CCs should be able to dictate all changes made at SCs for pre-consolidation	OP&CC	1-Mar-99	RED
18	Review ECL profile and make user-friendly. Profile should be used at	OP&CC/SSD	1-Mar-99	RED
	OPERATIONAL READINESS			
19	VTH needs to be baselined by a CC standard	OPS	1-Mar-99	RED
20	Combined with Issue #8			

LEGEND:
RED = SHORT TERM
YELLOW = MID TERM

2 12/9/98 Revision 1.1

MAINFRAME CONSOLIDATION ISSUES (Continued)

ISSUE NR	ISSUE DESCRIPTION	RESPONSIBILITY	SUSPENSE	STATUS
21	Combined with issue #31			
	FTP/PRINT			
22	Execute oversight and accountability for complete list of files	OPS/CC/SC	1-Jun-99	YELLOW
23	Consolidated with issue #10			
24	Develop data exchange standards and document	SSD	1-Jun-99	YELLOW
25	Enhance label information to contain qualifier information (time/date stamp, site, etc.) Use Control B utility to capture information	SSD	1-Jun-99	YELLOW
26	Develop necessary training for automation interfaces	OPS	1-Jun-99	YELLOW
27	Modify National ECL on permanent basis and create one set of ECL that works in consolidated and unconsolidated environment	SD/OPS/SSD	1-Jun-99	YELLOW
28	Review ECL move to RX Team for applicability	SD/OPS/SSD	1-Jun-99	YELLOW
29	Develop strategy for use of Scheduler for future cut-overs	PMO/OPS/CCC	1-Feb-99	YELLOW
30	Set standards to process reports going to EONS or to Print	OPS/SC/CC/SC	1-Jun-99	YELLOW
31	Mail piece and status reports. Implement on-line reports. Explore use of Output Tracking (COTS Product. Standardize viewing and distribution of on-line (non paper reports. Solution: Determine if standards can be proposed. Identify any hardware issues. Develop processes/documentation, train operators	SD/OPS/SSD	1-Feb-99	YELLOW

LEGEND:
RED = SHORT TERM
YELLOW = MID TERM

3 12/9/98 Revision 1.1

MAINFRAME CONSOLIDATION ISSUES (Continued)

ISSUE NR	ISSUE DESCRIPTION	RESPONSIBILITY	SUSPENSE	STATUS
32	Document and identify roles and responsibilities, develop standards, document processes. Solution: Develop Concept of Operations, expand SLAs and SOPs	PMO/OPS	1-Jul-99	YELLOW
	ADDITIONAL QUESTIONS			
33	How can the "Set Tape" function work on the 2200? and in the QA environment	PMO	1-Jun-00	YELLOW
34	How can changes be made for 9/1999 at the same time transmittal for FS2000 to QA is required?	PMO	1-Jun-00	YELLOW

LEGEND:
RED = SHORT TERM
YELLOW = MID TERM

4 12/9/99 Revision 1.1

Memorandum #2: Follow-up to Contracting Issues

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

January 13, 1999

Response Due: January 21, 1999

MEMORANDUM FOR CHIEF INFORMATION OFFICER IS
                               ASSISTANT COMMISSIONER (PROCUREMENT) M:P

Nancy A. Nakamura
(for)

FROM: Acting Assistant Regional Inspector (Internal Audit)
                       Southeast Region

SUBJECT: Internal Audit Memorandum # 2: Follow-up to Contracting Issues

This is the second Internal Audit Memorandum (IAM) issued as part of our follow-up audit of the Service Center Mainframe Consolidation (SCMC) project. We have identified concerns in the subject area that warrant your immediate attention. Some of the issues in the IAM were previously reported in May 1998, but have not been corrected. We have discussed the issues in this IAM with the Contracting Officer and the Project Director for Mainframe Consolidation.

This IAM is being presented for your information and agreement to the facts. If you are in agreement, please follow the procedures for responding to audit memoranda outlined in Internal Revenue Manual (IRM) 1289. If you do not agree with the facts in this memorandum, please contact my office within five workdays.

Results

Inadequate controls over the contract administration and lack of defined requirements continue to be problems for the SCMC project. Management stated by August 1998, they would provide additional resources to adequately define and validate delivery order requirements. Also, they would coordinate with

Procurement until all requirements could be definitized for negotiations to reduce its backlog of undefinitized delivery orders. As of October 1998, this has not occurred. This has diminished the Service's negotiating position and resulted in the contractor performing work estimated to be approximately $7 million without the Contracting Officer's knowledge. Specifically, the Program Office is not coordinating with Procurement to ensure effective administration of the Service Center Support Services (SCSS). This has resulted in the delivery orders under the SCSS contract not being adequately defined and goods and services provided without authorization from the Contracting Officer, which could be construed as unauthorized procurements. In addition, the invoices for services and travel were not being adequately verified due to lack of resources.

<u>Delivery Orders under the SCSS Contract Have Not Been Adequately Defined</u>

As of October 1998, 32 (totaling approximately $175 million) of 44 (totaling approximately $215 million) delivery orders obligated under the SCSS contract for SCMC remain undefinitized. Although the funds for these tasks have been obligated, Procurement has not been able to timely and effectively negotiate final prices with the contractor because of undefined requirements and incomplete technical evaluations.

The issue with undefinitized delivery orders was previously reported in a May 1998 Internal Audit Memorandum. The Program Office responded that by August 1, 1998, additional resources would be assigned to adequately define and validate delivery order requirements and to coordinate with Procurement until all requirements could be definitized for negotiations. This has not occurred. The Program Manager explained that a lack of resources in the Program Office and late proposals from the contractor were among the reasons that the requirements and technical evaluations were not completed. He explained that in many cases, by the time the proposal was complete, the Service's requirements had changed so the proposal was of no use.

The SCSS contract is a Firm Fixed Price (FFP) Level of Effort contract. The hardware and software is FFP and the services are level of effort. In a FFP environment, requirements need to be well defined to allow fair and reasonable prices to be negotiated. Undefinitized orders are those in which the contractor has been authorized to begin work, but the cost of the work has only been proposed and not negotiated. This technique provides the Contracting Officer (CO) the flexibility to issue delivery orders quickly, but in a FFP environment, exposes the Service to possible liability for additional costs if the pricing elements are not quickly finalized.

Additionally, the extremely aggressive implementation schedule for consolidation adds a great deal of pressure to the Program Office and the contractor to complete the project by Year 2000. The schedule did not allow time for well-thought-out requirements that resulted in Procurement issuing undefinitized delivery orders to get the project started. The pressure to stay on schedule has further hindered defining requirements, thus prevented definitization of delivery orders.

In response to the Program Office's inability to define and validate the requirements, Procurement has developed a plan to definitize the delivery orders. The plan will be carried out in three steps which involve obtaining information from the contractor regarding goods and services ordered. Procurement will validate the information for pricing accuracy and the Program Office will validate it for configuration accuracy, quantity, and delivery schedule and sites. The whole process is expected to be complete in June 1999.

This is not the best way to determine what goods and services have been provided. At this late date, the Service may be unable to verify the contractor claims or to question whether particular goods and services were actually delivered. However, considering that Procurement must have the delivery orders definitized to negotiate prices and the Program Office has not provided what is needed, this plan may be the only way to obtain the information Procurement needs.

Also, since the requirements have not been defined and validated, the Service is paying the contractor for their actual costs until the prices are negotiated. The earlier the prices are negotiated, the better chance the Service has of negotiating a lower price. However, since implementation is under way, the Service has lost its leverage in negotiating lower prices.

Furthermore, since the requirements have not been defined, the contractor's performance cannot be measured and evaluated to determine if it is meeting contractual requirements.

<u>Invoices for services and travel cannot be adequately verified</u>

Because of the pressure to stay on schedule, the Program Office has not provided the resources needed to verify invoices for services and travel. On very large, complex contracts there should be staff on site, Government Task Managers (GTMs), who report to the Contracting Officer's Technical Representatives (COTR). The GTMs verify equipment deliveries, labor hours worked, travel, etc. and report receipt and acceptance of these items to the COTR. On tasks as large as the SCMC, GTMs are necessary. The Program

Office is currently working on assigning GTMs on site, but without the information they provide, the COTRs cannot adequately verify the invoices.

This could potentially lead to the Service paying for services not received or for unallowable travel. Currently, the COTRs sign Surveillance Reports to verify the hours worked and travel taken by the contractor. These reports state that, to the best of the COTRs' knowledge, the contractor worked the hours invoiced, but they do not provide for any visual inspection of goods or services.

<u>Goods and Services are being provided which were not authorized by the Contracting Officer (CO)</u>

The aggressive implementation schedule influences decisions for the consolidation project. Decisions to order goods and services without following the proper procurement process were made due to the immediate need for these items. This resulted in several procurements with an estimated value of $7 million, which could be construed as unauthorized procurements. According to the Federal Acquisition Regulations, only the Contracting Officer (CO) has the authority to authorize work and bind the government. An unauthorized procurement is a procurement for which someone other than the CO instructs the contractor to perform work. Procurement then has to decide whether or not to ratify the procurement. Ratifying the procurement means the CO approves the procurement and agrees to pay for the actions.

Although the funds were available and the items were needed; the Program Office did not follow the proper procurement process. This requires the Program Office to submit a delivery order request to be processed by the CO and results in a delivery order being issued to the contractor. The delivery order authorizes the contractor to begin to perform work. For the delivery orders in question, it appears a Program Office employee authorized the contractor to begin work without the issuance of a delivery order by the CO.

In September 1998, the COTRs and COs became aware of these actions and Procurement issued delivery orders and/or modifications (undefinitized) to fund the procurements. Also, the Service will only pay the contractor for 50% of these procurements until the required proposals for the work are submitted and approved.

We recommend that:

IRS management ensure that proper procurement procedures are followed to obtain goods and services by taking the following actions:

1. Ensuring that the June 1999 date is met to complete definitization.

2. Establishing full-time GTMs and support staff on site to monitor and verify deliveries, hours worked by the contractor, and travel taken by the contractor.

3. Ensuring that the Program Office and the contractor are made aware of who is authorized to tell the contractor to initiate work.